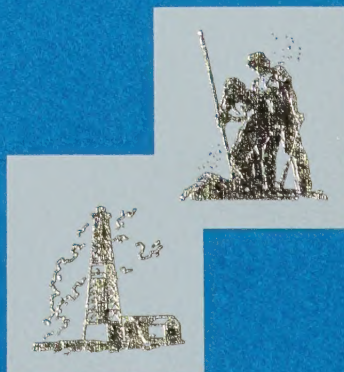


AR47

*L*ayrock  
*M*ines  
LIMITED

ANNUAL REPORT

1975







# **RAYROCK MINES LIMITED**

**AND ITS SUBSIDIARY**

## **DIRECTORS**

L. A. BEDNARZ, Toronto  
Executive Engineer, Discovery Mines Limited

J. C. BYRNE, Toronto  
President and Managing Director of Discovery Mines Limited  
Managing Director, Avoca Mines Limited

C. M. EVANS, Calgary  
Senior Vice-President, Ashland Oil Canada Limited

H. EARL JOUDRIE, Toronto  
Chairman and Chief Executive Officer, Ashland Oil Canada Limited

P. M. KAVANAGH, Toronto  
Vice-President, Exploration, Rio Algom Limited

J. J. RANKIN, Toronto  
President and Managing Director, Jorex Limited

W. J. WHELAN, Toronto  
Senior Vice-President, Ashland Oil Canada Limited

## **OFFICERS**

J. C. BYRNE  
President and Managing Director

H. EARL JOUDRIE  
Vice-President

D. R. CROMBIE  
Vice-President, Mining

D. R. McEWEN  
Secretary-Treasurer

## **EXECUTIVE ENGINEER**

L. A. BEDNARZ

## **SENIOR GEOLOGIST**

T. ANTONIUK

## **EXECUTIVE OFFICE**

Suite 1011, 2200 Yonge Street, Toronto, Canada

## **TRANSFER AGENTS AND REGISTRARS**

CROWN TRUST COMPANY, Toronto

## **BANKERS**

ROYAL BANK OF CANADA, Bay and Temperance Branch, Toronto

## **AUDITORS**

COOPERS & LYBRAND, Toronto

## **SOLICITORS**

CAMPBELL, GODFREY & LEWTAS, Toronto

## **ANNUAL MEETING**

May 17, 1976  
11.00 a.m.  
Rosedale Room  
Hotel Plaza II  
90 Bloor Street East, Toronto





## Directors' Report to the Shareholders:

The acquisition in 1975 of substantial additional oil reserves in southwestern Ontario and the participation in a joint venture purchase of gas reserves in Alberta will provide a solid earnings base for your Company for many years. Recoverable oil reserves in Ontario are now estimated at 3,150,000 barrels. Our increased involvement in the petroleum industry entailed a total 1975 investment of \$1,213,000. The 1976 capital outlay in Alberta will approximate \$450,000.

Our main exploration thrust is directed to the search for uranium deposits. We have optioned a partially explored prospect located north of Yellowknife, and will participate this summer in a regional airborne radio-metric survey in the Northwest Territories. The most important joint venture involvement is the Cordex Syndicate, conducting exploration in Nevada and surrounding States. The Syndicate's efforts in recent years have been largely directed to gold and silver occurrences, however, uranium and base metal programs will henceforth receive increased emphasis.

Production plans for the 20 per cent owned Pinson gold property in Nevada have been shelved pending improved economics. Cash flow projections indicate that the project would become attractive at a gold price approaching \$175. Reserves were recalculated in accordance with a change in the original open pit layout, and now total 1,747,000 tons averaging 0.15 ounces per ton, representing a better than five year mine life at the proposed scale of operations. Additional lower grade reserves amenable to surface extraction are present.

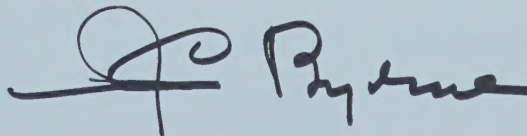
Through control of Discovery Mines your Company has a 23.5 per cent indirect interest in Avoca Mines Canada Limited. Its wholly owned Irish copper mine has experienced substantial losses in the past two years and is in need of immediate financial support. Due to the equity accounting system of reporting that is now required, the equity share of losses of Avoca Ireland appear in the Discovery accounts and in turn flow through to the Rayrock financial statements. By reason of this reporting system the financial statements of both Discovery and Rayrock do not present an appropriate picture of their operations. The interests in Avoca Mines Canada have accordingly been written down to \$1.00 which eliminates the reporting problem for the future but has resulted in the recording of a loss of \$1,169,333 in Rayrock's 1975 earnings statement. While Avoca Ireland's viability has been seriously eroded during the past eighteen months by a combination of depressed copper prices and escalating operating costs, recent strength in copper lends cautious optimism that the problems may be overcome.

Effective in 1974 the Company's fiscal year end was changed from October 31st to conform with that of the calendar period and, accordingly, the comparative financial results shown reflect twelve and fourteen month terms.

Profit for 1975 before taxes, exploration expenditures and extraordinary items was \$728,771. Consolidated net loss was \$1,211,645 which compares with a net profit of \$312,046 for the previous fourteen month period. The decline in earnings, as mentioned earlier, was primarily the result of an increase in Rayrock's equity portion of the net loss of Discovery Mines and an extraordinary write down of shares and debentures held in Avoca Mines Canada. Earnings were also affected by a reduction in mining revenues, due to the termination in mid-1975 of operations at the Icon Sullivan Joint Venture copper mine.

Working capital at year end was \$832,039, while investments in listed securities had a market value of \$2,451,309. Investment in petroleum properties was \$1,592,515 after deduction of accumulated depletion and depreciation totalling \$880,568.

On behalf of the Board of Directors



J. C. BYRNE  
President and Managing Director



# RAYROCK MINES LIMITED

## AND ITS SUBSIDIARY

### OIL AND GAS

#### ALBERTA

Rayrock Mines is party to a joint venture purchase of varying interests in several producing and semi-developed gas properties in Alberta. The joint venture, comprised of five companies and individuals, is administered by Canadian Oil & Gas Fund Ltd., a private Alberta corporation.

Of the 1975 group investment of \$1,000,000 Rayrock's share was \$300,000 of which \$135,450 was funded by bank loans. The preliminary capital budget for 1976 is \$1,525,000 of which \$1,000,000 has been earmarked for a proven property purchase. Rayrock's commitment would be \$247,500 of equity and \$210,000 of debt financing for a total capital of \$457,500.

Attractive returns on investment are indicated for the joint venture acquisitions occasioned by the substantial gas price increases which have occurred and are forecast. Project emphasis is on the southeastern Alberta shallow Milk River and Medicine Hat gas occurrences that were marginal until quite recently. A great deal of industry activity is now focussed on these shallow gas reserves whose development has been stimulated by some important technical advances which have assisted in curbing inflationary and cost escalation factors, and also of considerable importance is the concept of large multi-well block development by townships or other large patterns rather than by sections.

With reference to the property location map in this report we present the following description of our gas interests —

|                |                        |            |
|----------------|------------------------|------------|
| <b>WARWICK</b> | Project net interest   | 4.11764%   |
|                | Rayrock's net interest | 1.23529%   |
|                | Production             | 2.9 mmcf/d |

|                 |                        |            |
|-----------------|------------------------|------------|
| <b>RANFURLY</b> | Project net interest   | 2.17524%   |
|                 | Rayrock's net interest | 0.65257%   |
|                 | Production             | 7.5 mmcf/d |

|                 |                        |            |
|-----------------|------------------------|------------|
| <b>PRINCESS</b> | Project net interest   | 0.90113%   |
|                 | Rayrock's net interest | 0.27034%   |
|                 | Production             | 7.5 mmcf/d |

|                       |                        |                                                           |
|-----------------------|------------------------|-----------------------------------------------------------|
| <b>HILDA GAS UNIT</b> | Project net interest   | 4.73864%                                                  |
|                       | Rayrock's net interest | 1.42159%                                                  |
|                       | Current production     | 6.2 mmcf/d with five more wells to be tied in during 1976 |

#### SUFFIELD EAST

|                  |                        |        |
|------------------|------------------------|--------|
| <b>Section 8</b> | Project net interest   | 6.250% |
|                  | Rayrock's net interest | 1.875% |

|                   |                         |            |
|-------------------|-------------------------|------------|
| <b>Section 17</b> | Project net interest    | 12.500%    |
|                   | Rayrock's net interest  | 3.750%     |
|                   | Initial 1976 production | 4.8 mmcf/d |

|                   |                                 |          |
|-------------------|---------------------------------|----------|
| <b>WEST HILDA</b> | Project net interest            | 7.31818% |
|                   | Rayrock's net interest          | 2.19545% |
|                   | Initial production late 1976 at | 4 mmcf/d |

In addition to the aforementioned gas activities, Rayrock has a modest but significant and long standing interest in the Redwater D-3 Pool operated by Imperial Oil. Your Company's net production interest is 0.02972% which returned a net operating oil income of \$39,134 in 1975.

#### ONTARIO

Total 1975 oil production from Rayrock's three waterflood operations, one at Gobles and two at Rodney, was 158,824 barrels. These units combined produced 183,400 barrels in the previous calendar year. Of the 1975 total Rodney contributed 117,210 barrels or 74 per cent, and the Gobles Field 41,614 barrels, equivalent to 26 per cent.

Reflecting the \$1.50 per barrel increase in crude oil prices authorized by the Federal Government and which became effective on July 1, 1975, the prevailing Ontario price paid for Rayrock's production averages \$8.50 per barrel.

On January 1, 1975 Rayrock acquired for \$913,000 some 2.1 million barrels of estimated recoverable oil reserves contained in the Rodney and Gobles Fields. Ultimate realizable production from the three oil properties, now wholly owned, is estimated at 3,150,000 barrels.



## MINE PRODUCTION

Reservoir performance at Gobles has been less than satisfactory and measures are being taken to improve oil production.

Mining operations at the Icon Sullivan Joint Venture property terminated in May while milling continued until mid-June. Copper production in the six month period was modest at approximately 2.5 million pounds contained in concentrate from the milling of 40,248 tons of ore. Much of the mine

equipment and warehouse items have been sold.

In the eight years since commencement of mining in May, 1967, Icon produced over 96 million pounds of copper in concentrate. Total tons extracted from open pit and underground was 2,346,337 of which 729,768 tons were rejected as waste by the preconcentrator. Net tonnage milled at the Canadian Merrill concentrator was 1,616,569 tons having an average head grade of 3.07 per cent copper.

## MINERAL EXPLORATION

### CORDEX SYNDICATE

During the past two years the main exploration thrust of the Cordex Syndicate was directed to the search for disseminated gold and silver mineralization in a bedded type geological environment. Central Nevada received the most concentrated investigation and, while encouragement was realized in several instances, both the grades and reserve potentials were generally too low to be of economic importance.

Several uranium showings in Nevada were examined during 1975, and in each case the mineralization proved to be erratic. A molybdenum prospect was staked centered on an altered intrusive and, although commercial values are not known to exist at surface, there appears to be a geological chance that a disseminated ore deposit may occur at depth.

The Cordex Syndicate will shortly be completing its sixth year of exploration in the Southwestern United States. Directing the field programs is Mr. John S. Livermore of Reno, Nevada. Rayrock Mines, Inc. has been funding 25 per cent of annual expenditures since the Syndicate was formed by a group of Canadian mining companies.

Whereas the Syndicate's activities have thus far been primarily in Nevada, future exploration exposure will favour other neighbouring states. Ura-

nium ventures will receive increased emphasis.

### ICON SYNDICATE

1975 marked the sixteenth and final year for the Icon Syndicate, whose Manager since inception has been Mr. Andrew J. Troop.

Two regional exploration programs in Northwestern Ontario were completed when all important anomalies from earlier airborne geophysical surveys had been investigated either by trenching or diamond drilling.

Icon and Lynx-Canada Explorations jointly staked 39 claims in the Beardmore area to protect an airborne response located in the neighbourhood of a recent copper discovery. A ground geophysical survey was conducted and follow-up drilling may be initiated in 1976.

Of the many property submissions received by Icon, a total of three were examined in the field and subsequently rejected.

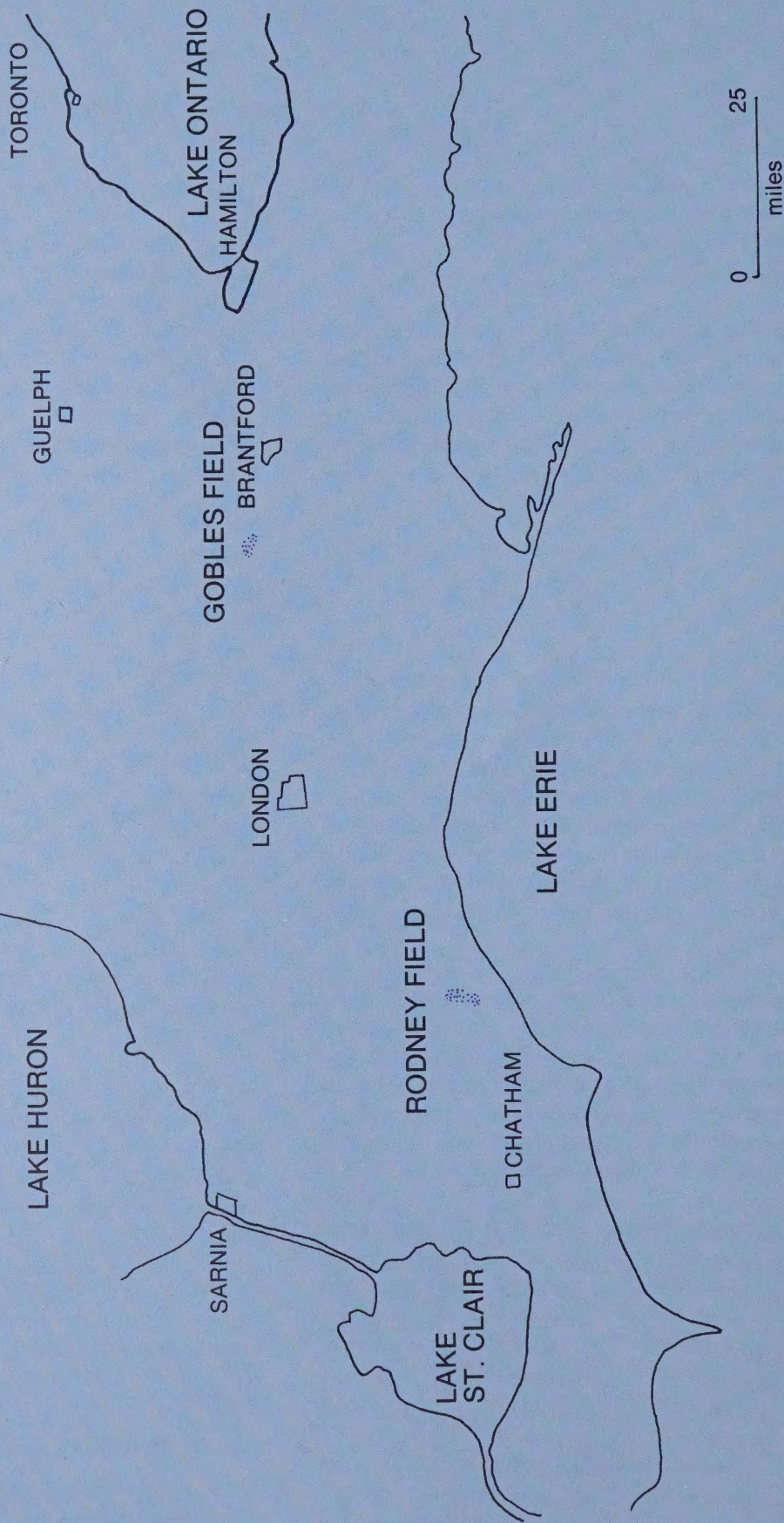
### MUNROE LAKE SYNDICATE

The Munroe Lake Syndicate conducted additional exploration during 1975 in the Munroe Lake



# LOCATION MAP

## RAYROCK'S OIL FIELDS SOUTHWESTERN ONTARIO





EDMONTON

REDWATER D-3 POOL  
(0.0297% production interest)

WARWICK (1.235% int.)

RANFURLY  
(0.652% int.)

RAYROCK'S  
OIL AND GAS  
INTERESTS  
ALBERTA

CALGARY

PRINCESS  
(0.270% int.)

(1.421% int.)

WEST  
HILDA  
(2.195% int.)

HILDA  
GAS UNIT

SUFFIELD  
EAST

(1.875% — 3.750% int.)

TWP

55

SASKATCHEWAN

50

45

40

35

30

25

20

15



## **RAYROCK MINES LIMITED**

### **AND ITS SUBSIDIARY**

area of northern Manitoba. Following a regional prospecting program initiated in the previous year, the latest work consisted of line cutting and geophysics over five selected geological targets. Drilling has been recommended for one good conductor located under the waters of a lake, and this investigation could be undertaken from the ice before this winter season expires. While the anomaly is rather long, suggesting it may represent a formational occurrence, the presence of a copper showing and mineralized boulders on the nearby shore of the lake enhance the merits of the target.

Participants in the Munroe Lake venture are Rayrock, Ducanex Resources, Noranda Exploration, and the Manitoba Government.

### **PINSON PROJECT**

Following receipt last December of an updated feasibility study, the sponsors of the Pinson Project in Nevada unanimously decided to shelve production plans pending improved economics structured on a gold price substantially higher than the \$140 per ounce quotation prevailing at year end. The report by Wright Engineers Limited illustrated profit projections at various gold prices, and also evaluated the comparative merits of owning versus leasing new mining equipment; capital requirements of a 300,000 ton per year conventional cyanide processing plant were estimated at \$10.8 million in the first instance and \$8.5 million in the latter. The purchase of good used equipment has not been discounted by the Pinson participants on the expectation of lower capital expenditures.

In the case of leased equipment, \$150 gold, an equity investment of \$4.8 million, and a peak bank loan of \$4.3 million, a net return of approximately \$3.4 million is envisaged, which is considered unsatisfactory. However, at \$175 gold this net return more than doubles and, accordingly, the project would be considered attractive even if new mine equipment was purchased.

Ore reserves at Pinson were recalculated during the year in accordance with a change in the original open pit layout, and now total 1,747,000 short tons averaging 0.152 ounces per ton. Overall stripping

ratio is 5.3 tons of waste to one ton of ore.

Projects conducted in 1975 included additional metallurgical investigations based on samples extracted from a decline adit, environmental studies, leaching tests, and, of course, preparation of an updated feasibility report.

Rayrock's net interest in Pinson is 20 per cent. The other participants are United Siscoe Mines, Lacana Mining Corporation, International Mogul Mines, and Cordilleran Exploration of Reno, Nevada.

### **ABCOURT PROJECT**

A silver-zinc prospect located in Barraute Township, Quebec, and owned by Abcourt Metals Inc., was optioned at mid-year. A major surface drilling program, funded equally by Rayrock and Ashland Oil Canada, was subsequently undertaken, the primary objective of which was to investigate the depth potential of a 4,000 foot long mineralized zone explored intermittently since 1950.

Results of the deep tests were disappointing. However the shallow drilling proved encouraging in that a potential open pit reserve of 3 million tons grading 1.4 ounces silver per ton and 2.5 per cent zinc was indicated. This tonnage was regarded as inadequate and the grade too marginal to justify additional exploration expenditures by Rayrock and Ashland. Consequently, the option has been terminated.

### **LAFORMA PROJECT**

Surface diamond drilling was conducted this past summer on the LaForma property under option from Discovery Mines. The program, financed jointly by Rayrock and Ashland Oil Canada, was undertaken to investigate several geochemical anomalies indicated from a soil survey carried out during the previous year.

While individual drill hole assays were not overly exciting, the results were sufficiently encouraging to warrant further exploration. One area of interest is a



porphyry type occurrence, complex in nature, and as yet inadequately defined. Low grade gold and silver values occur in association with sparsely disseminated sulphide mineralization. Two of the more significant intersections were 503 feet averaging 0.018 ounces gold and 0.08 ounces silver per ton, and 68 feet returning 0.067 ounces gold and 0.34 ounces silver per ton. On the evidence that considerable leaching has taken place future drill investigation would determine whether enriched zones are present.

Another site deserving of follow-up work is the apparent extension of the partially developed G-3 Zone which has been displaced by faulting.

Previous underground exploration and development of the G-3 deposit disclosed proven and probable reserves of 70,000 tons having an average recoverable grade of 0.44 ounces gold per ton. Six holes drilled beneath the bottom adit level returned good values indicating excellent depth potential.

Under the terms of the Discovery option the Rayrock/Ashland joint venture would earn a controlling interest in the LaForma property in the event \$1.0 million is spent by the end of 1978. To date exploration expenditures have been \$231,253.

## **GOLDLUND MINES INTEREST**

Goldlund Mines recently concluded an agreement with Selco Mining Corporation whereby Selco has optioned 8 patented and 16 unpatented mining claims situated in Echo Township, Northwestern Ontario. A geophysical survey will be undertaken which may be followed by a drilling program. The optioned ground is divorced from the known Goldlund gold occurrences and is of interest for its base metal possibilities.

## **GENERAL**

Rayrock participated with Canadian Malartic Gold Mines in the exploration of two groups of claims acquired by staking and located in North-western Quebec. Two electromagnetic anomalies were drilled in August and results proved disappointing.

\* \* \* \* \*

Claims that had been staked at Point Lake, N.W.T., by Rayrock and Precambrian Mining Services were optioned to Noranda Exploration who conducted a program of geophysics, mapping and prospecting. Narrow sulphides were intersected in three drill holes but as indications were uneconomic the option was terminated.

\* \* \* \* \*

A uranium prospect owned by Crestland Mines and located 80 miles northwest of Yellowknife has been optioned. A minimum of \$25,000 will be spent this year on a program of surface mapping, prospecting and radiometric surveys.

Underground work conducted on the Crestland property in 1955 and 1956 disclosed a number of mineralized occurrences of modest dimension. The most recent exploration in 1974 consisted of prospecting and reconnaissance scintillometer work over newly acquired claims staked adjoining the original group.

Under the terms of the option agreement Rayrock could earn an 80 per cent interest in the Crestland property in the event \$900,000 is spent by January 31, 1980.



**RAYROCK MINES LIMITED**  
AND ITS SUBSIDIARY

*Consolidated Balance Sheet*

**ASSETS**

|                                                                                                                   | 1975<br>\$       | 1974<br>\$       |
|-------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| <b>Current assets</b>                                                                                             |                  |                  |
| Cash .....                                                                                                        | 93,154           | 86,652           |
| Short-term deposits .....                                                                                         | 600,000          | 1,400,000        |
| Other short-term investments .....                                                                                | —                | 50,260           |
| Accounts receivable and prepaid expenses .....                                                                    | 367,568          | 314,440          |
| Interest in the current assets of the Icon Sullivan Joint Venture .....                                           | 47,036           | 508,035          |
| Income taxes recoverable .....                                                                                    | 52,992           | —                |
|                                                                                                                   | <u>1,160,750</u> | <u>2,359,387</u> |
| Investment in other companies (note 3) .....                                                                      | 2,991,133        | 4,135,213        |
|                                                                                                                   |                  |                  |
| <b>Oil and gas properties</b>                                                                                     |                  |                  |
| Petroleum and natural gas leases — at cost, less accumulated depletion (1975 — \$714,557; 1974 — \$627,168) ..... | 1,537,097        | 475,396          |
| Well equipment — at cost, less accumulated depreciation (1975 — \$166,011; 1974 — \$144,436) .....                | 55,418           | 13,084           |
|                                                                                                                   | <u>1,592,515</u> | <u>488,480</u>   |
|                                                                                                                   |                  |                  |
| <b>Mining properties</b>                                                                                          |                  |                  |
| Mining claims — at cost .....                                                                                     | 25,002           | 25,004           |
| Interest in non-current assets of the Icon Sullivan Joint Venture .....                                           | 166,792          | 119,077          |
| Interest in unexpended funds of mining exploration syndicates .....                                               | —                | 18,113           |
| Mine buildings and equipment — at cost, less accumulated depreciation of \$33,535 .....                           | 234,021          | 234,021          |
|                                                                                                                   | <u>425,815</u>   | <u>396,215</u>   |
|                                                                                                                   |                  |                  |
| <b>Other assets</b>                                                                                               |                  |                  |
| Head office furniture — at cost, less accumulated depreciation (1975 — \$16,442; 1974 — \$14,409) .....           | 8,130            | 7,336            |
|                                                                                                                   | <u>6,178,343</u> | <u>7,386,631</u> |



as at December 31, 1975

## LIABILITIES

### Current liabilities

|                                                | 1975<br>\$     | 1974<br>\$     |
|------------------------------------------------|----------------|----------------|
| Bank loan — secured .....                      | 222,309        | 133,025        |
| Accounts payable and accrued liabilities ..... | 106,402        | 48,728         |
| Income taxes .....                             | —              | 294,978        |
|                                                | <u>328,711</u> | <u>476,731</u> |

|                             |                |                |
|-----------------------------|----------------|----------------|
| Deferred income taxes ..... | 396,000        | 200,000        |
|                             | <u>724,711</u> | <u>676,731</u> |

## SHAREHOLDERS' EQUITY

### Capital stock

Authorized —  
5,000,000 shares of \$1 par value each

|                                                   |           |           |
|---------------------------------------------------|-----------|-----------|
| Issued and fully paid —<br>4,460,000 shares ..... | 4,460,000 | 4,460,000 |
|---------------------------------------------------|-----------|-----------|

|                           |         |         |
|---------------------------|---------|---------|
| Contributed surplus ..... | 619,318 | 619,318 |
|---------------------------|---------|---------|

|                         |         |           |
|-------------------------|---------|-----------|
| Retained earnings ..... | 418,937 | 1,630,582 |
|-------------------------|---------|-----------|

|  |                  |                  |
|--|------------------|------------------|
|  | <u>5,498,255</u> | <u>6,709,900</u> |
|--|------------------|------------------|

|                                          |        |   |
|------------------------------------------|--------|---|
| Purchase of capital stock (note 8) ..... | 44,623 | — |
|------------------------------------------|--------|---|

|  |                  |                  |
|--|------------------|------------------|
|  | <u>5,453,632</u> | <u>6,709,900</u> |
|--|------------------|------------------|

Signed on behalf of the board

J. C. BYRNE, Director

H. E. JOUDRIE, Director

|  |                  |                  |
|--|------------------|------------------|
|  | <u>6,178,343</u> | <u>7,386,631</u> |
|--|------------------|------------------|

**RAYROCK MINES LIMITED**  
AND ITS SUBSIDIARY

## Consolidated Statement of Earnings and Retained Earnings

For the Year Ended December 31, 1975

|                                                                                                                                                          | 1975<br>\$         | 1974<br>(note 2)<br>\$ |
|----------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|------------------------|
| <b>Revenue</b>                                                                                                                                           |                    |                        |
| Revenue from mining operations.....                                                                                                                      | <b>321,063</b>     | 2,401,252              |
| Revenue from petroleum operations .....                                                                                                                  | <b>1,293,711</b>   | 859,648                |
| Investment income .....                                                                                                                                  | <b>298,341</b>     | 590,765                |
|                                                                                                                                                          | <b>1,913,115</b>   | 3,851,665              |
| <b>Expenses</b>                                                                                                                                          |                    |                        |
| Cost of mine production .....                                                                                                                            | <b>304,951</b>     | 1,544,711              |
| Cost of petroleum production .....                                                                                                                       | <b>644,268</b>     | 398,625                |
| Administrative and general .....                                                                                                                         | <b>124,128</b>     | 97,264                 |
| Depreciation and amortization .....                                                                                                                      | <b>110,997</b>     | 173,675                |
|                                                                                                                                                          | <b>1,184,344</b>   | 2,214,275              |
| <b>Earnings</b> before exploration expenditures, income and mining taxes, share of loss<br>determined by the equity method and extraordinary items ..... | <b>728,771</b>     | 1,637,390              |
| <b>Exploration expenditures</b> (note 4) .....                                                                                                           | <b>431,733</b>     | 630,309                |
|                                                                                                                                                          | <b>297,038</b>     | 1,007,081              |
| <b>Income and mining taxes</b>                                                                                                                           |                    |                        |
| Current .....                                                                                                                                            | <b>(47,000)</b>    | 371,807                |
| Deferred .....                                                                                                                                           | <b>196,000</b>     | (23,000)               |
|                                                                                                                                                          | <b>149,000</b>     | 348,807                |
|                                                                                                                                                          | <b>148,038</b>     | 658,274                |
| <b>Share of (loss) determined by the equity method</b> .....                                                                                             | <b>(51,065)</b>    | (346,228)              |
|                                                                                                                                                          | <b>96,973</b>      | 312,046                |
| <b>Extraordinary items</b> (note 6) .....                                                                                                                | <b>(1,308,618)</b> | —                      |
| <b>Net earnings (loss) for the year</b> .....                                                                                                            | <b>(1,211,645)</b> | 312,046                |
| <b>Retained earnings — beginning of year</b> .....                                                                                                       | <b>1,630,582</b>   | 1,318,536              |
| <b>Retained earnings — end of year</b> .....                                                                                                             | <b>418,937</b>     | 1,630,582              |
| <b>Earnings per share before extraordinary items</b> .....                                                                                               | <b>\$0.02</b>      | \$0.07                 |
| <b>Earnings (loss) per share for the year</b> .....                                                                                                      | <b>(\$0.27)</b>    | \$0.07                 |



# Consolidated Statement of Changes in Financial Position

For the Year Ended December 31, 1975

|                                                                      | 1975               | 1974<br>(note 2) |
|----------------------------------------------------------------------|--------------------|------------------|
|                                                                      | \$                 | \$               |
| <b>Sources of working capital</b>                                    |                    |                  |
| Current operations —                                                 |                    |                  |
| Earnings for the year before extraordinary items .....               | <b>96,973</b>      | 312,046          |
| Add: items which did not require the use of working capital —        |                    |                  |
| Deferred income taxes .....                                          | <b>196,000</b>     | (23,000)         |
| Share of loss on equity method .....                                 | <b>51,065</b>      | 346,228          |
| Depreciation and amortization .....                                  | <b>110,997</b>     | 173,675          |
| Gain on sale of investments .....                                    | <b>(63,330)</b>    | (313,327)        |
|                                                                      | <b>391,705</b>     | 495,622          |
| Proceeds on sale of investments .....                                | <b>323,982</b>     | 834,156          |
| Share of proceeds on sale of Icon Sullivan assets .....              | <b>18,490</b>      | —                |
|                                                                      | <b>734,177</b>     | 1,329,778        |
| <b>Use of working capital</b>                                        |                    |                  |
| Purchase of investments .....                                        | <b>431,607</b>     | 985,197          |
| Purchase of treasury shares .....                                    | <b>44,623</b>      | —                |
| Additions to oil and mine properties .....                           | <b>1,213,000</b>   | 325,784          |
| Share of mine shut-down expense of Icon Sullivan Joint Venture ..... | <b>118,520</b>     | —                |
| Other .....                                                          | <b>(22,956)</b>    | 8,865            |
|                                                                      | <b>1,784,794</b>   | 1,319,846        |
| <b>Increase (decrease) in working capital .....</b>                  | <b>(1,050,617)</b> | 9,932            |
| <b>Working capital — beginning of year .....</b>                     | <b>1,882,656</b>   | 1,872,724        |
| <b>Working capital — end of year .....</b>                           | <b>832,039</b>     | 1,882,656        |

**RAYROCK MINES LIMITED**  
AND ITS SUBSIDIARY

## Notes to Consolidated Financial Statements

For the Year Ended December 31, 1975

### 1. Accounting policies

The accounting policies of the company are in accordance with generally accepted accounting principles and the significant policies are outlined below.

- (a) Basis of consolidation  
The consolidated financial statements include the accounts of the company and its subsidiary, Rayrock Mines, Inc.
- (b) Participation in Icon Sullivan Joint Venture  
The company's proportionate share of revenues and costs of the venture, as well as the company's proportionate investment in the current and non-current assets of the venture are included in the consolidated financial statements.
- (c) Translation of foreign currency  
Current assets and current liabilities have been converted at the exchange rates prevailing at the year-end. Other assets and liabilities have been converted at historical rates.
- (d) Income taxes  
The company follows the tax allocation method of accounting whereby the provision for income taxes is based upon income reported in the accounts.
- (e) Exploration expenditures  
Costs incurred in exploring for metals, oil and gas, including annual rentals and dry hole costs, are charged to expense in the year incurred. Acquisition costs of oil and gas properties and the costs of drilling and equipping successful wells are capitalized.
- (f) Depreciation and depletion  
Depreciation is calculated on the reducing balance method as follows:

|                             |        |
|-----------------------------|--------|
| Head office furniture ..... | 20%    |
| Mine equipment .....        | 30%    |
| Oil well equipment .....    | 4%-30% |

Depletion of oil and gas property and drilling costs is determined on the unit-of-production method based on proven reserves.

- (g) Long-term investments  
The investment in shares of Discovery Mines Limited, an effectively controlled company, is carried at cost adjusted by the company's share of the earnings or losses since effective control was acquired. Other long-term investments are written down when there is evidence that their inherent worth has declined below their carried value.

### 2. Change of year-end

In 1974 the company's year-end was changed from October 31 to December 31 and the results of operations in 1974 are for a fourteen month period.

### 3. Investment in other companies

This item comprises:

|                                                                                                                                                                   | 1975             | 1974             |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| Investment in shares of Discovery Mines Limited (43.5% owned) accounted for by the equity method (quoted market value 1975 — \$860,064; 1974 — \$2,884,950) ..... | \$ 856,046       | \$ 1,716,186     |
| Other listed shares — at cost (quoted market value 1975 — \$1,591,245; 1974 — \$1,890,330) .....                                                                  | 1,763,070        | 1,885,829        |
| Other shares (unlisted or escrowed) and debentures — at cost, less amounts written off .....                                                                      | 372,017          | 533,198          |
|                                                                                                                                                                   | <u>2,991,133</u> | <u>4,135,213</u> |

The quoted market values referred to above do not necessarily represent the realizable value of these holdings which may be more or less than that indicated by market quotations.



#### 4. Exploration expenditures

|                                 | 1975           | 1974           |
|---------------------------------|----------------|----------------|
| These consist of the following: | \$             | \$             |
| Abcourt property .....          | 112,661        | —              |
| Icon Syndicate .....            | 35,000         | 65,885         |
| Laforma property .....          | 81,153         | 39,730         |
| Pinson Project .....            | 74,526         | 57,934         |
| Cordex I Syndicate .....        | 15,069         | 32,683         |
| Cordex II Syndicate .....       | 47,543         | 35,971         |
| Goldlund property .....         | —              | 150,651        |
| Reco property .....             | —              | 109,482        |
| Other mining exploration .....  | 65,781         | 137,973        |
|                                 | <u>431,733</u> | <u>630,309</u> |

#### 5. Remuneration to directors and senior officers

Directors and senior officers, as defined in the Business Corporations Act (Ontario), received direct remuneration in the year ended December 31, 1975 of \$122,250 (1974 — \$114,400).

#### 6. Extraordinary items

|                                                                                                         | \$               |
|---------------------------------------------------------------------------------------------------------|------------------|
| Write-down of shares and debentures of Avoca Mines Canada Limited (note 7) —                            |                  |
| Owned directly by Rayrock Mines Limited .....                                                           | 273,567          |
| Proportion, on an equity basis, of those owned by Discovery Mines Limited .....                         | 895,766          |
| Share of mine shut-down expenses less gain on sale of fixed assets of Icon Sullivan Joint Venture ..... | 44,646           |
| Proportion, on an equity basis, of other extraordinary items reported by Discovery Mines Limited .....  | 94,639           |
|                                                                                                         | <u>1,308,618</u> |

#### 7. Avoca Mines Canada Limited

The investment in shares and debentures of Avoca Mines Canada Limited has been written down to a nominal value of \$1 in the accounts of both Rayrock Mines Limited and Discovery Mines Limited.

In 1975 Avoca Canada concluded that while its Irish Subsidiary has considerable long-term potential, the current uncertainties as to (a) future financial support, (b) potential material reduction in the company's present percentage of ownership of the subsidiary and (c) conditions for copper producers, make it unrealistic to continue carrying the investment in shares at their equity value; accordingly such investment was written down to a nominal value of \$1.

In addition, Avoca Canada's debentures which were due December 31, 1975 remain unpaid and are in default although discussions to extend the maturity date are being held with certain major debentureholders. At December 31, 1975 Avoca Canada had no assets of determinable value other than advances to its Irish subsidiary.

#### 8. Purchase of capital stock

During the year the company purchased 55,000 of its own shares at a cost of \$44,623. The shares are being held to meet requirements of the employees' stock option plan.

#### 9. Stock option plan

The company on July 28, 1975 granted options to five employees covering 50,000 shares of stock at \$0.90 per share. The options may only be exercised as to 20,000 shares in the first year, 15,000 shares in the second year and 15,000 shares in the third year, and all options expire July 18, 1980.

#### 10. Anti-inflation

The company is subject to restraints of dividends under the terms of the Anti-Inflation Act and Regulations which became effective October 14, 1975.

**RAYROCK MINES LIMITED**  
**AND ITS SUBSIDIARY**

**AUDITORS' REPORT TO THE SHAREHOLDERS**

We have examined the consolidated balance sheet of Rayrock Mines Limited and its subsidiary as at December 31, 1975 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination of the financial statements of Rayrock Mines Limited included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the report of the auditors who examined the financial statements of the subsidiary.

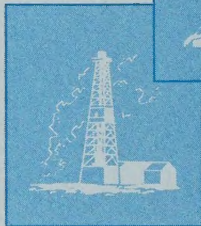
In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Toronto, Ontario  
March 30, 1976

COOPERS & LYBRAND  
Chartered Accountants









Rayrock Mines Ltd., Toronto

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There are no comparable 1974 first quarter figures for Rayrock Mines Ltd. because of a change in fiscal year-end to Dec. 31 from Oct. 31 last year.

J. C. Byrne, president, said profit this year is expected "to remain modest, reflecting the continuing level of expenditures on exploration that amounted to \$630,000 in 1974 and \$931,000 in 1973."

It is likely to be at least two years before income is generated by the Pinson gold prospect in Nevada, in which Rayrock has a 20 per cent interest. Based on an estimate of \$11 million to bring the prop-

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arrangement to bring the prop-  
erty into production, it is  
probably that Rayrock will be  
called upon for about \$1-mil-  
lion equity investment.  
Total crude oil reserves of  
the company's petroleum divi-  
sion are currently 3.3 million  
barrels as a result of a recent  
purchase of 2.1 million barrels  
of estimated recoverable oil.  
Production is currently at an  
annual rate of 165,000 barrels.